NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: **Senators Tillman, Hise, and Newton**
Analyst(s): **Denise Canada**
RE: **House Bill 537, V4.**

SUMMARY TABLE

FISCAL IMPACT OF H.B. 537, V.4

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
State Impact					
General Fund Revenue	-	-	-	-	-
Less Expenditures	-	-	-	-	-
General Fund Impact	**Likely Minimal Revenue Loss - Refer to Fiscal Analysis section**				
Highway Fund Revenue	-	-	-	-	-
Less Expenditures	-	-	-	-	-
Highway Fund Impact	**Likely Minimal Revenue Gain - Refer to Fiscal Analysis section**				
NET STATE IMPACT					

FISCAL IMPACT SUMMARY

House Bill 537, V4, creates a new, lower tax rate for vehicle subscriptions, which are currently subject to the State's Alternate Highway Use tax at an 8% rate. Lowering the tax rate on these rentals to 5% would reduce overall State tax revenue.

FISCAL ANALYSIS

Under G.S. 105-187.5, retailers who purchase vehicles to use for rental or similar purposes may choose not to pay the Highway Use Tax but instead to pay an "Alternate Highway Use Tax" on the gross receipts they earn from renting and leasing out the vehicle.

North Carolina has two Alternate Highway Use Tax rates:

- **3% tax:** Applies to the lease or rental of a motor vehicle for at least 365 days; revenue credited to the Highway Trust Fund; and

- **8% tax:** Applies to the lease or rental of a motor vehicle for less than 365 days; all but $10 million of the revenue credited to the General Fund, and the remaining $10 million credited to the Highway Fund.

The bill creates a third tax rate:

- **5% tax:** Would apply to vehicle subscriptions; revenue would be credited to the Highway Trust Fund.

North Carolina current taxes vehicle subscriptions at the short-term 8% rate and deposits the proceeds in the General Fund. Lowering the tax to the 5% rate, and crediting the proceeds to the Highway Trust Fund, would have the following impacts:

- It would lower overall State tax revenue;
- It would lower General Fund revenue by an unknown amount;
- It would increase Highway Trust Fund revenue by an unknown but lesser amount.

The overall revenue reduction is expected to be insignificant because these services are not widely available. However, because vehicle subscriptions are a relatively new service model, no data is publicly available that would allow the Fiscal Research Division to calculate the bill's fiscal impact.

The Fiscal Research Division understands that vehicle subscription services market themselves as an alternative to traditional long-term car leasing. To the extent that subscription services are able to take over portions of the long-term car leasing market, the State could over time see a revenue increase since long-term car leases are taxed at a lower rate (3%) than subscription services would be under the bill (5%).

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

None.

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.